Foundations of MARKETING
Seventh Edition

Chapter 11

An Overview of Strategic Marketing

Pride | Ferrell

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Learning Objectives

11-1 Explain how companies manage existing products through line extensions and product modifications.

11-2 Describe how businesses develop a product idea into a commercial product.

11-3 Discuss the importance of product differentiation and the elements that differentiate one product from another.

11-4 Explain how business position their products.

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Learning Objectives (continued)

11-5 Discuss how product deletion is used to improve product mixes.

11-6 Describe how the characteristics of services influence the development of marketing mixes for services.

11-7 Describe organizational structures used for managing products.

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Managing Existing Products

- Benefit by capitalizing on existing products
- Identify weaknesses and gaps
- Analysis can lead to improvement of the product mix through
- **Line extension** – development of a product closely related to existing products but designed specifically to meet different customer needs
- **Product modification** – change in one or more characteristics of a product

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Line Extensions

- Line extensions may
  - Focus on a different market segment
  - Increase sales within the same market segment
- Success of a line extension is enhanced when a
  - Parent brand has a high-quality brand image
  - Good fit between the line extension and its parent exists

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Discussion Point - Line Extensions

Source: iStockphoto.com/NoDerog

These products are line extensions of the original Crest toothpaste.

Do firms create line extensions to appeal to different customers or existing customers?

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Product Modifications

- Original product drops from the product line
- Less risk than developing new products
- Improves a firm’s product mix under certain conditions
  - Product must be modifiable
  - Customers must recognize the modification
  - Modification should be consistent with customers’ desires

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Quality Modifications

Quality modifications – changes relating to a product's dependability and durability

- Reduce the quality
  - Sell at a lower price
  - Direct product at a different target market
- Increase the quality
  - Advantage over competing brands
  - Charge a higher price

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Functional Modification

Functional modification – changes that affect a product's versatility, effectiveness, convenience, or safety

- Often must redesign product
- Make a product useful to more people; enlarge its market
- Provide benefits competing brands don't offer
- Achieve and maintain a progressive image
- Reduce the possibility of product liability lawsuits

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Discussion Point – Functional Modifications in the Automobile Industry

Source: Nikita Starichenko/Shutterstock.com

One of the ways in which automobile companies are engaging in functional modification is by developing vehicles that can run on electric energy.

Provide examples of industries that redesign products because of advancements in technology.

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Aesthetic Modification

Aesthetic modifications – changes the sensory appeal of a product

- Buyer is swayed by how a product
  - Tastes
  - Feels
  - Sounds
  - Smells
  - Looks
- Differentiates product from competing brand

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Developing New Products

- Enhances product mix and adds depth to a product line
- A new product can be
  - An innovative product that has never been sold by any organization
  - A modified product that existed previously
  - A product a specific company has not marketed previously
  - Viewed as new when it is brought to one or more markets from another market

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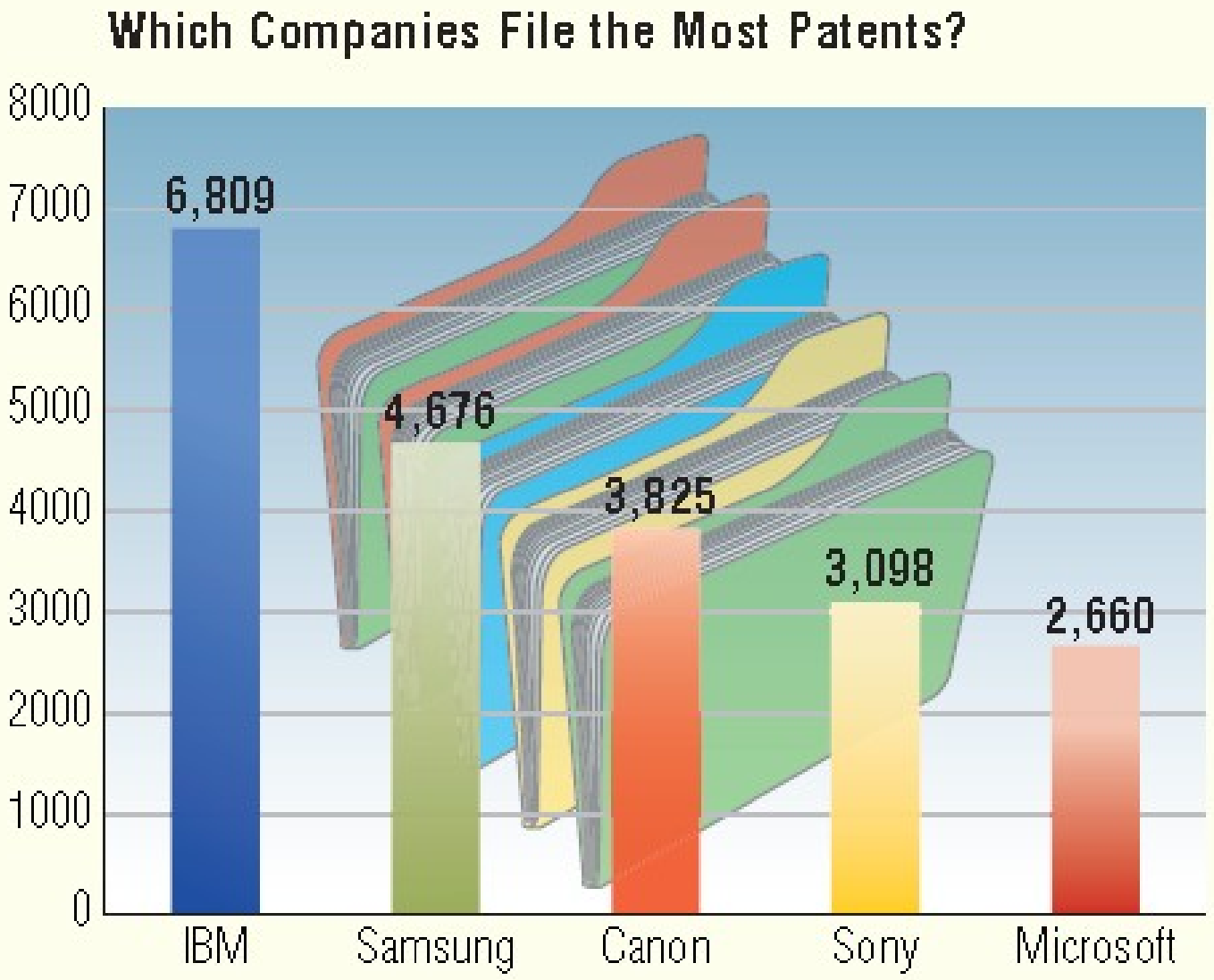
SNAPSHOT



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New-Product Development Process

New-product development process – a seven-phase process for introducing products

1. Idea generation
2. Screening
3. Concept testing
4. Business analysis
5. Product development
6. Test marketing
7. Commercialization

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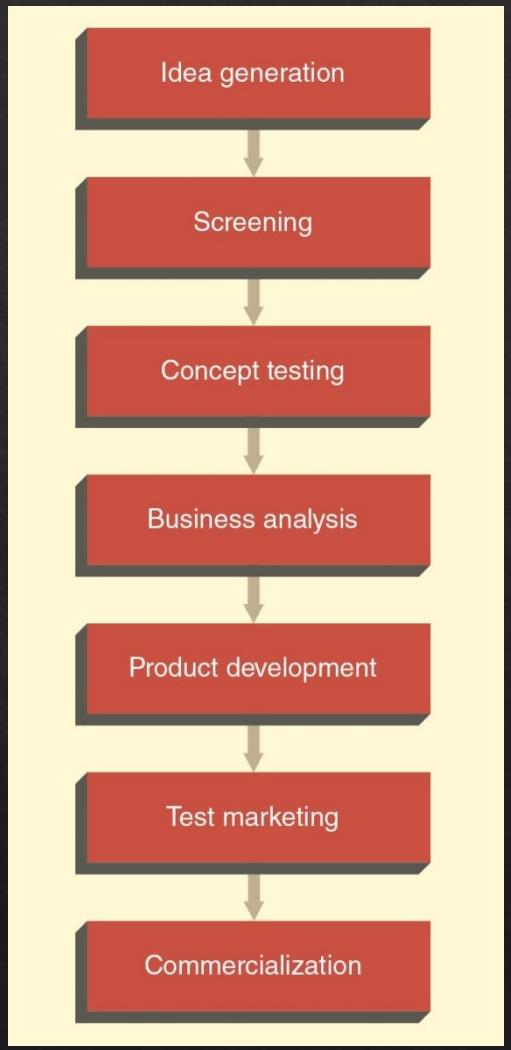
Figure 11.1 - Phases of New-Product Development



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Discussion Point – New Product? Not Yet!

Source: Giuseppe Costantino/Shutterstock.com

Google Glass, a new product recently developed by Google, allows users to view e-mails and apps as well as take videos in a hands-free format through voice commands. Google had to withdraw this product due to technical issues.

Do you find this new innovation appealing? Why?

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Idea Generation

Idea generation – seeking product ideas that can help achieve objectives

Internal

- Marketing managers
- Researchers
- Sales personnel
- Engineers
- Other organizational personnel

External

- Customers
- Competitors
- Advertising agencies
- Management consultants
- Research organizations

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Screening

Screening - selecting ideas with greatest potential for further review

- Ideas are analyzed to determine whether they match the organization's objectives and resources
- Most new products are rejected during this phase

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Concept Testing

Concept testing - presenting potential buyers with a product idea

- A low-cost procedure
- Determine customer's attitudes and initial reactions before investing in research and development

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Business Analysis

Business analysis - evaluating a product idea to determine its potential contribution to the firm's sales, costs, and profits

- Marketers ask a series of questions
- Results supply the specifics needed to estimate potential sales, costs and profits
- Analysis based on estimates
  - Breakeven analysis
  - Payback analysis

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Product Development

Product development - determining if producing a product is technically feasible and cost effective

- Idea is converted into a test prototype
- Overall functioning of the prototype is tested
- Determining the quality to be built into the product

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Test Marketing

Test marketing - limited introduction of a product in geographic areas chosen to represent the intended market

- Aims to determine the extent to which potential customers will buy the product
- Exposes a product in a natural marketing environment to measure its sales performance
- Measures the extent of brand awareness
- Risks
  - Expensive
  - Competitors may try to interfere

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Table 11.1 – Common Test Market Cities

Columbus, Ohio
Peoria, Illinois
Albany, New York
Jacksonville, Florida
Lexington, Kentucky
Des Moines, Iowa
Battle Creek, Michigan
Greensboro, North Carolina
Cleveland, Ohio
Phoenix, Arizona

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Commercialization

Commercialization – deciding on full-scale manufacturing and marketing plans and preparing budgets

- Marketers analyze results of test marketing
  - Necessary changes to the marketing mix are made
  - Decisions on warranties, repairs and replacement parts are made
- Rollout - product is introduced in stages
  - Starting in one geographic area
  - Gradually expanding into adjacent areas

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Stages of Commercialization

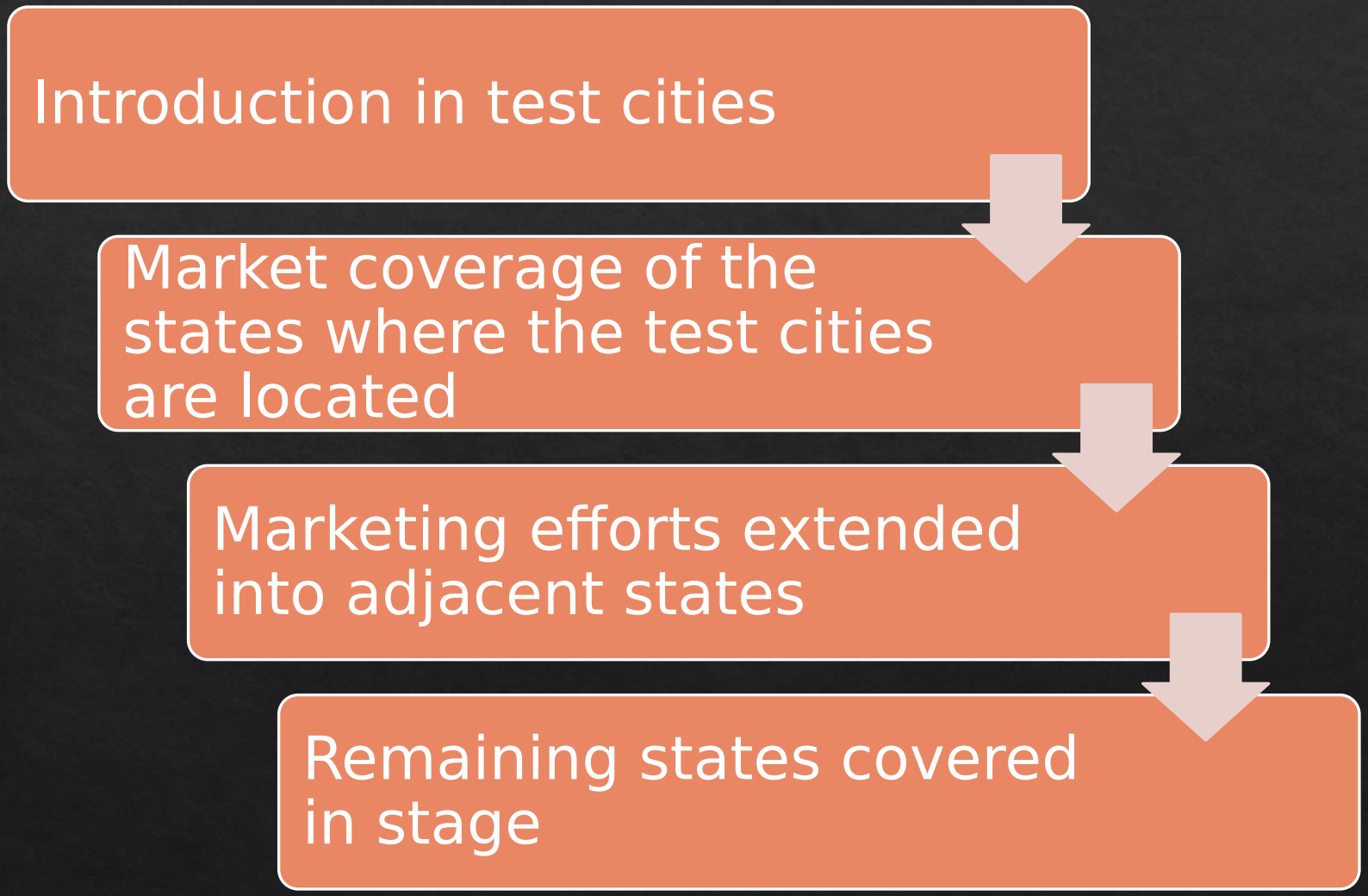
Introduction in test cities
Market coverage of the states where the test cities are located
Marketing efforts extended into adjacent states
Remaining states covered in stage

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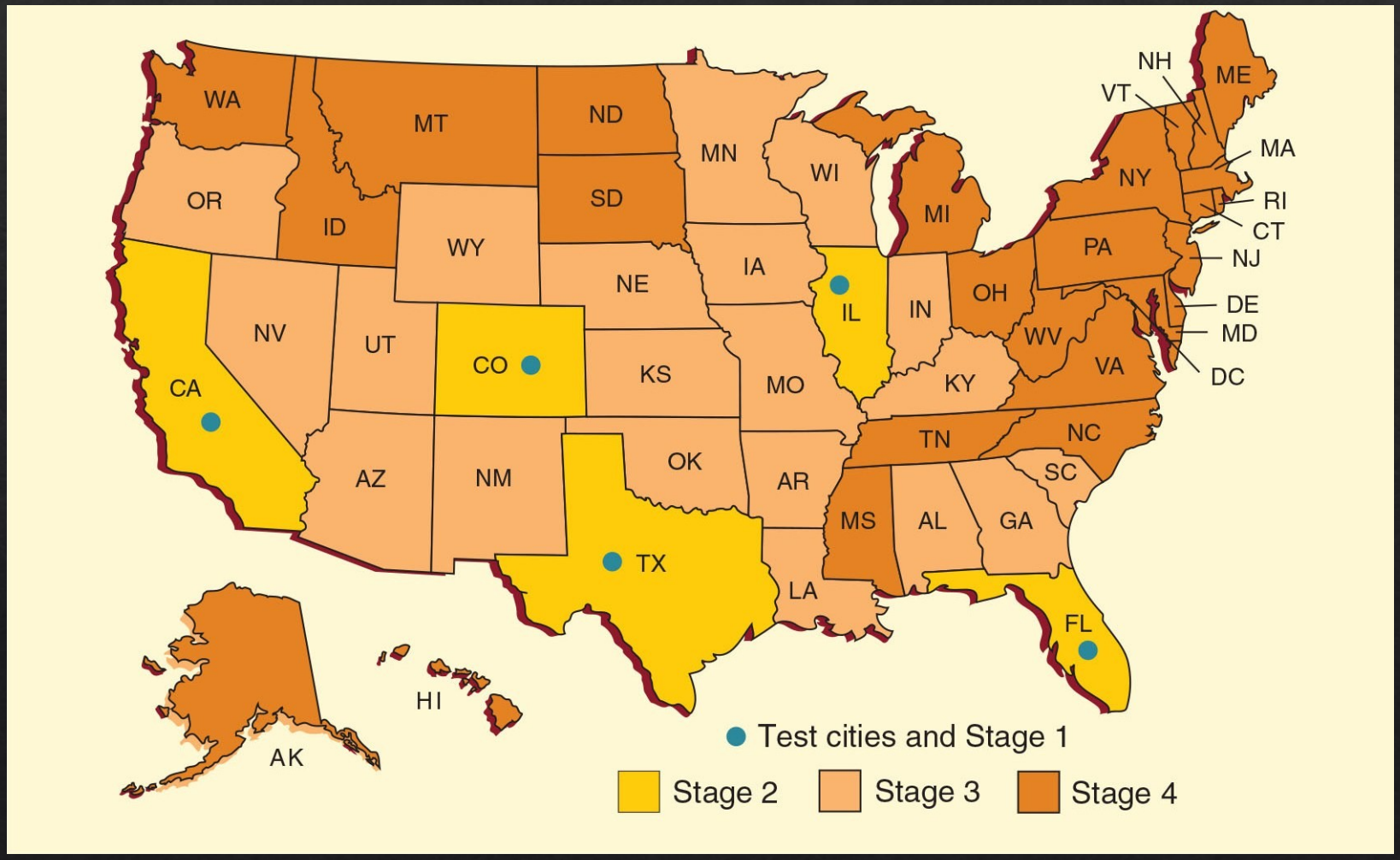
Figure 11.2 - Stages of Expansion into a National Market During Commercialization



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Product Differentiation

Product differentiation - process of creating and designing products that are perceived as different from other products

- Customer perception is critical in differentiating products.
- Aspects to be considered when creating and offering products for sale
  - Product quality
  - Product design and features
  - Product support services

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Product Quality

Quality - overall characteristics of a product that allow it to perform as expected in satisfying customer needs

- Concept of quality varies between consumer and business markets
- Dimensions of quality
  - **Level of quality - a**mount of quality a product possesses
  - **Consistency of quality -** degree to which a product has the same level of quality over time

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Discussion Point – Level of Quality

this is not baby food.
Beech-Nut
just honeycrisp apples
This is real food for babies.
Homemade is our inspiration.
Just real, whole fruits and vegetables are inside our jars. And nothing else.

Source: Hero AG Group

Beech-Nut advertises that its product has a high level of quality by claiming that its baby food is made from only real whole fruits and vegetables.

Are you willing to pay more for a higher level of quality?

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Product Design and Features

- **Product design** – how a product is conceived, planned, and produced
- **Styling** – physical appearance of a product
- **Product features** – specific design characteristics; allows a product to perform certain tasks

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Product Support Services

- **Customer services** - human or mechanical efforts or activities a company provides
  - Adds value to a product
  - Differentiates a company's products from competitors'
  - Profoundly affects customer satisfaction
- Consumers infer a higher level of quality from the availability of add-on services

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Product Positioning

Product positioning - decisions and activities intended to create and maintain a certain concept of the firm's product in customers' minds

- Product positioned to appear to have characteristics target market most desires
- Projected image is crucial
- Develop perceptual maps to analyze product

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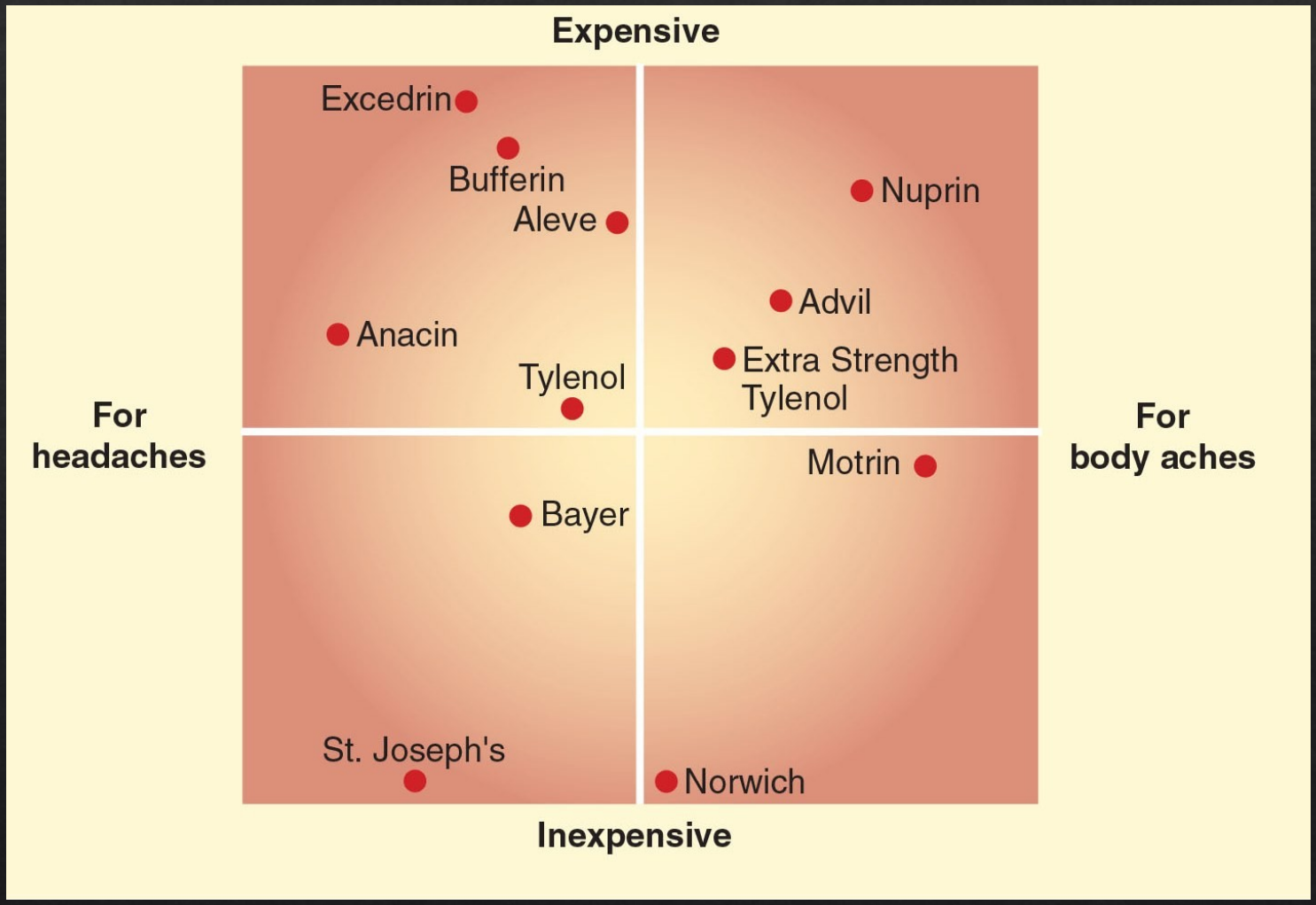
Figure 11.3 - Hypothetical Perceptual Map of Pain Relievers



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Bases for Positioning

- Head-to-head – product's performance characteristics are equal to those of competitive brands
- Avoid competition – brand has unique characteristics that are important to some buyers
- Specifically based – product attributes and features
- Other bases – price, quality level, and benefits

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Discussion Point – Product Positioning

Source: Burt's Bees, Inc.

Burt's Bees positions its lip crayon as being 100% natural.

Do you think buying 100% natural products is based on demographic characteristics?

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Repositioning

- Evaluating the positions of existing products
  - The brand's market share and profitability may be strengthened.
  - Existing brands may have to be repositioned to minimize cannibalization and to ensure a favorable position for the new brand.
- Can be accomplished by
  - Physically changing the product, price, or distribution
  - Changing product image through promotional efforts
  - Aiming at a different target market

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Product Deletion

Product deletion - eliminating a product from the product mix

- Systematic review allows an organization to improve a product or delete a product
- Ways of product deletion
  - Phase-out - allows a product to decline without a change in marketing strategy
  - Run-out - exploits any strengths left in the product
  - Immediate drop - used when losses are too great

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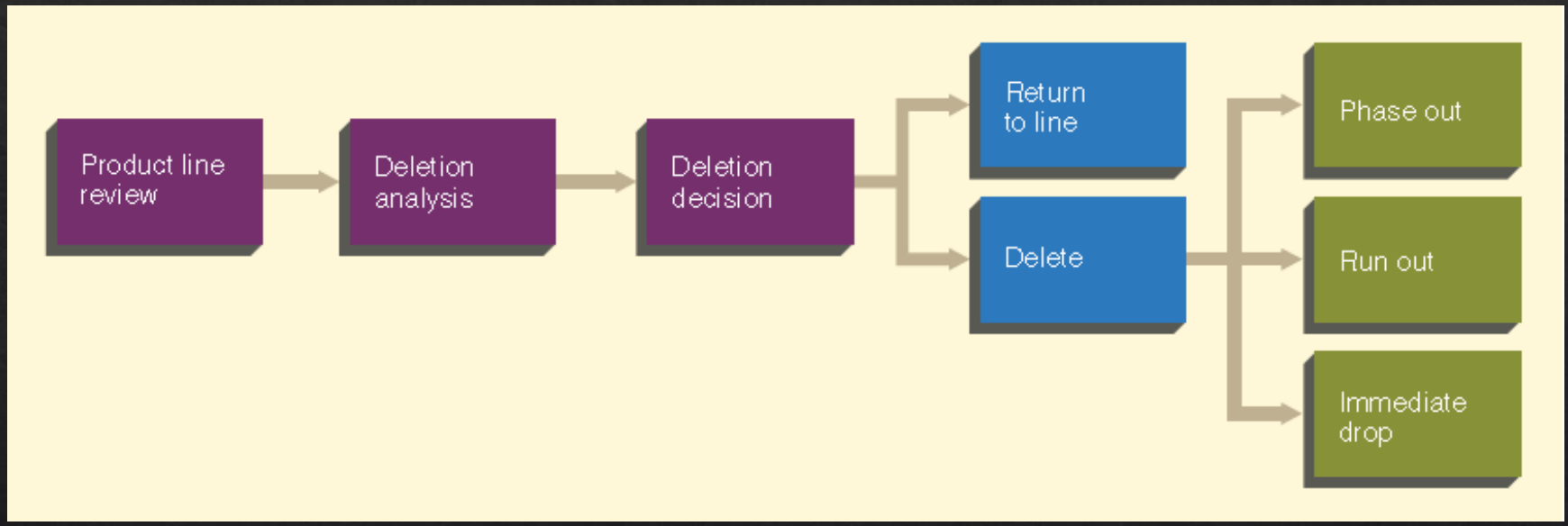
Figure 11.4 – Product Deletion Process



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Nature and Importance of Services

- Difference between services and goods
  - Service - dominated by the intangible portion of the total product
  - Service as products is not the same as customer services
- Examples of service as a product
  - Health care
  - Landscaping
  - **Homesourcing** – customer-contact jobs outsourced to the homes of workers

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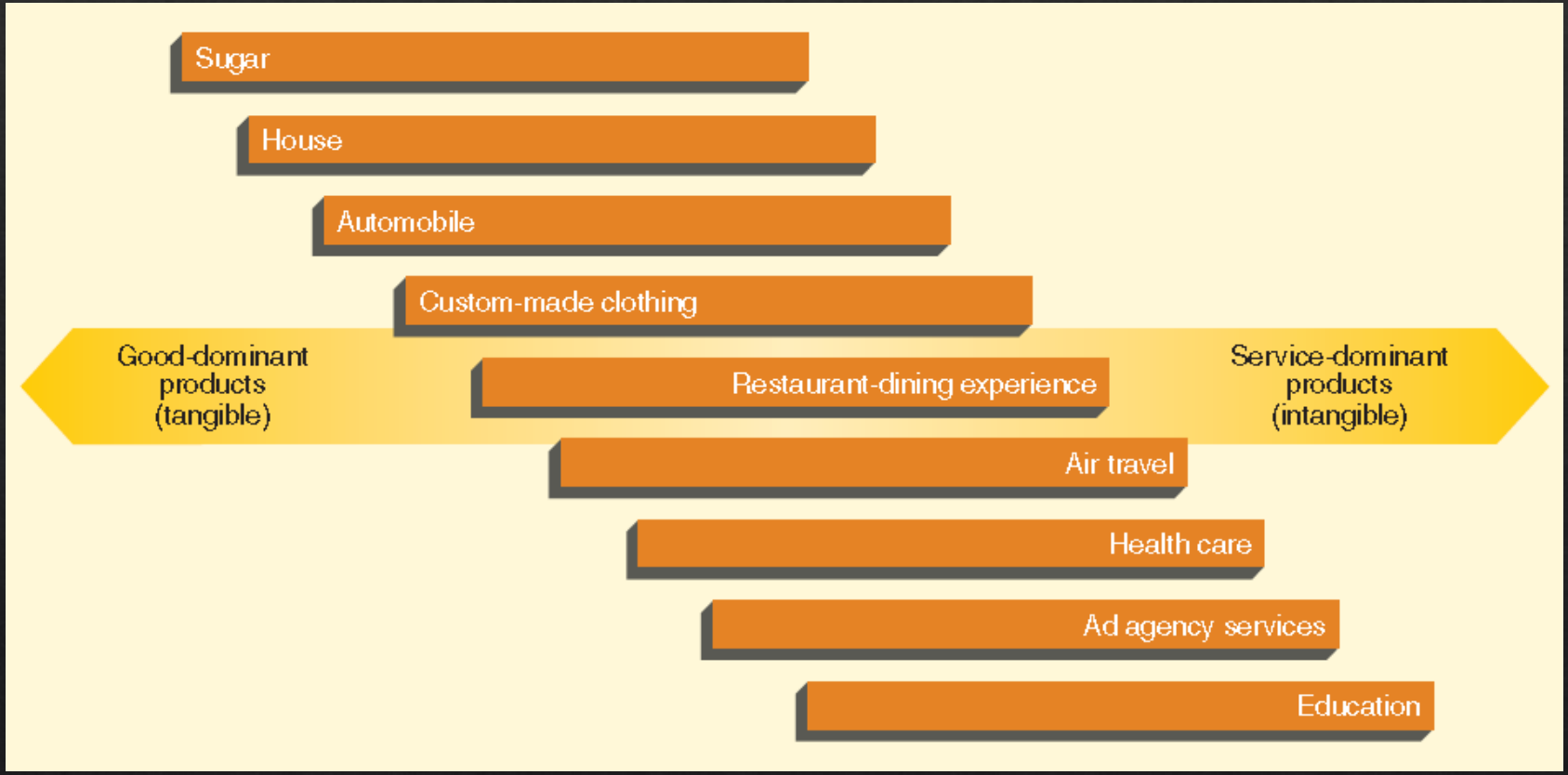
Figure 11.5 – The Tangibility Continuum



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Characteristics of Services

- **Intangibility** – service is not physical and cannot be touched
- **Inseparability** - produced and consumed at the same time
- **Perishability** –unused service capacity of one time period cannot be stored for future use
- **Heterogeneity** – variation in quality
- **Client-based relationships** – interactions that result in satisfied customers who use a service repeatedly over time
- **Customer contact** – level of interaction between provider and customer needed to deliver the service

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Discussion Point – Perishability of Services

Source: iStockphoto.com/Walli

For airlines, empty seats represent lost revenue that cannot be recovered. Obviously, yesterday's empty airline seats cannot be sold today. For this reason, airlines often offer incentives to fill empty seats even if means lowering the price.

How do airlines prepare ahead to avoid having empty seats on a flight?

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Discussion Point – Service Characteristic of Heterogeneity

Source: Gemenacom/Shutterstock.com

Do you like to go to the same hair care professional most of the time? If so, it is probably because you want the same quality of hair care, such as a haircut that you have received from this individual in the past.

What other services do you choose because of heterogeneity?

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Discussion Point – Service with High Customer Contact

Source: CandyBox Images/Shutterstock.com

Healthcare services require high customer contact.

Are you satisfied with the service when you visit a doctor?

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Development of Services

- Core service - basic service experience or commodity that a customer expects to receive
- Supplementary services - related to the core service to differentiate the service bundle from competitors'
- Customization - a key role in competitive advantage; expensive
- Standardized packages – such as cable TV

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Pricing of Services

- Factors to consider
  - Consumer price sensitivity
  - Nature of the transaction
  - Costs
  - Demand
- Based on
  - Performance of specific tasks
  - Time
  - Level of demand

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Pricing of Services (continued)

- Services offered at
  - One price
  - Separately
  - Combination of the two
- Customers rely on price as an indicator of quality

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Table 11.2 – Service Characteristics and Marketing Challenges

Service Characteristics	Resulting Marketing Challenges
Intangibility	Difficult for customer to evaluate. Customer does not take physical possession. Difficult to advertise and display. Difficult to set and justify prices. Service process usually not protectable by patents.
Inseparability of production and consumption	Service provider cannot mass-produce services. Customer must participate in production. Other consumers affect service outcomes. Services are difficult to distribute.
Perishability	Services cannot be stored. Balancing supply and demand is very difficult. Unused capacity is lost forever. Demand may be very time-sensitive.
Heterogeneity	Service quality is difficult to control. Service delivery is difficult to standardize.
Client-based relationships	Success depends on satisfying and keeping customers over the long term. Generating repeat business is challenging. Relationship marketing becomes critical.
Customer contact	Service providers are critical to delivery. Requires high levels of service employee training and motivation. Changes a high-contact service into a low-contact service to achieve lower costs without reducing customer satisfaction.

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Distribution of Services

- Marketers deliver services in a variety of ways
  - At the service provider's facility
  - At customer's home or business
  - With no face-to-face contact
- Marketing channels for services are usually short and direct
  - Producer delivers service directly to the end user
  - Some services use intermediaries
- Inventory management is a serious concern for services

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Discussion Point – Distribution of Services

Source: iStockphoto.com/Juanmonino

UPS provides delivery services and maintains websites to track packages online.

Do you prefer automated services, or do you prefer to talk to a staff person?

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Promotion of Services

Intangibility results in promotion-related challenges

- Tangible cues are a typical way to promote services.
  - Promotions for services include pictures of facilities, equipment, and service personnel
  - Advertisements use concrete, specific language
  - Personal selling can help customers visualize the service experience.
- Word-of-mouth communication is important.

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Organizing to Develop and Manage Products

- **Product manager** – responsible for a product, a product line, or several distinct products that make up an interrelated group
- **Brand manager** – responsible for a single brand
- **Venture team** – responsible for all aspects of developing a product
  - Research and development
  - Production and engineering
  - Finance and accounting
  - Marketing

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Discussion Point – Product Manager Responsibilities

Source: iStockphoto.com/Kaan tanman

Product managers operate cross-functionally to coordinate marketing activities associated with products, including advertising, branding, design, and distribution.

If you could be a product manager, what product would you want to manage?

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